

Auditing

Special Interest Group

NEWSLETTER



ISSUE No. 4 July 2008

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Letter from the Chairman



Hello and welcome to the fourth edition of our newsletter.

It continues to be a wonderful experience for me the privilege of serving as the Chairman of the Auditing Special Interest Group of the British Accounting Association. It has been a great pleasure to communicate with so many of the members of our Special Interest Group and the broader auditing profession community.

As you know by now, one of the exciting activities of our Special Interest Group is the production of *The Newsletter*. I want to encourage you to help us help you by keeping us informed of relevant developments affecting our profession. Please see the Editor's Column on page 4 for more details on the objectives of *The Newsletter* and the call for contributions. We will strive to keep you informed through our website, and through our *Newsletter*. We will also periodically keep you informed of upcoming events and important information through email.

During the last annual general meeting that took place in Cardiff during the 2008 National Auditing Conference, the

ASIG Conference

19th National Auditing Conference

27th & 28th March 2009

Exeter, UK

Details on Page 9!

We need you! Please contribute your views, ideas, news, articles or any other relevant information to i.g.basioudis@aston.ac.uk Tel: +44 121 204 3024 Fax: +44 121 204 4915

membership of the Executive Committee has remained as the previous year with one exception. **Emer Curtis** (NUI Galway) tendered her resignation from the Executive Committee of Auditing SIG. Emer has been in the Executive Committee of the Auditing SIG the last 4-5 years and also been involved with the National Auditing Conference the last 10 years. The Committee thanked Emer for her contributions and I personally expressed my gratitude to Emer for all her hard work and for keeping up with the demands of the secretary of the Group. **Nina Sharma** (Cardiff Business School) is the new member on the Executive Committee and will replace Emer as the secretary of the Auditing Group. Nina will be sending periodically the emails and other important information.

The main present focus of interest for members of BAA's Auditing SIG continues to be the National Auditing Conference and in 2008 we celebrated our eighteenth conference. It took place in Cardiff, 18-19 April 2008 and was supported by the Cardiff University Business School and Nina Sharma was the conference co-ordinator. The papers accepted for presentation were organised in plenary session. This way an excellent opportunity provided for members to interact and dialogue about important issues related to the audit profession.

A distinctive characteristic of the National Auditing Conference resides in its willingness to gather a unique mix of practitioner and academic audience and presentations. As a result, we are very pleased to see among others the ICAEW's continuing support in terms of their willingness to talk about current auditing issues that occupy the accounting profession, the APB's support and practitioners' enthusiasm to participate in our conference.

The first keynote address was given by **Sir Adrian Cadbury**. Sir Adrian was the Chairman

of the UK Committee which produced the well known Cadbury Report and Code on The Financial Aspects of Corporate Governance in 1992. The subject of Sir Adrian's talk was the future and challenges of auditing and corporate governance. See a separate commentary on Sir Adrian Cadbury's speech under the Features section of the *Newsletter*.

There were four research papers presented during the first day of the conference. These papers addressed a broad array of topics and research methods. The first day finished with the plenary panel session which considered the topic of **Professional Ethics and Corporate Governance**. Sir Adrian Cadbury chaired the session, and **David Molyneux** (Aberdeen University), **Diana Hillier** (Senior Partner, PricewaterhouseCoopers), and **Peter Denton** (Managing Director, Williams Denton Cyf accounting firm) presented their views on the professional ethics and good corporate governance. The panel concluded with a Q&A session, and very interesting questions were raised and equally motivating answers were given. The lively discussion ended because of ASIG's annual general meeting and the evening dinner were on hold.

The second day began with two keynote speakers, **Katharine Bagshaw** (Manager, Auditing Standards, ICAEW) and **Steven Leonard** (Project Director of Financial Reporting Council/Auditing Practices Board). Katharine's speech was on **The Audit Clarity Project of IAASB** and was very informative. See page 21 for the follow-up article. Steven's presentation touched **The Auditor's Report** and raised the question whether there is a time for change in the format of the auditor's report. See page 13 for his follow-up article. Four research papers were then presented on various auditing areas. All papers presented in the conference were particularly informative in providing information to help improve Auditing SIG's members' research.

Chairperson's Letter

The Organising Committee of the 2008 National Auditing Conference wish to thank our **sponsors** - *The Association of Chartered Certified Accountants (ACCA)*, *the Institute of Chartered Accountants in England and Wales (ICAEW)*, and *the Institute of Chartered Accountants of Scotland (ICAS)* who generously sponsored the 2008 National Auditing Conference in Cardiff.

Closing this letter, I would like you to consider if there is a dress code or office attire in your university department or in your office. Have there been any sartorial changes in your workplace, and if yes, in which direction? Looking at the increasingly blurred line between 'smart' and 'casual', or 'formal' and 'smart' is always a difficult one. I wonder if your colleagues still insist on formal work wear (with or without a tie?) or the increasingly common but difficult to interpret 'smart casual'. Are you amongst those colleagues like me that favour the office attire? I personally do for two main reasons. First, as the corporate psychologists would probably indicate dressing casually makes people behave in a more casual manner, and I am sure you will have plenty examples of this in your mind (as I am also in no doubt you will be able to give me plenty examples of the opposite). Secondly, I believe that it allows me some separation between my life at and outside work. The concept of work/life balance that I asked you to reflect on in the last issue of this *Newsletter* comes again in the surface here. The line between life at and outside work is becoming even more unclear these days, so I think it is beneficial to be able to go home, switch off our minds from work issues (or shut down the BlackBerry, if you have got one), and shed our 'work skins'. However, given the time flexibility we all enjoy in this profession, how feasible is this, I wonder. I often catch myself tempted to read

and answer emails in the evening or even do work at unsocial or unconventional times.

Please feel free to contact me or other Auditing SIG Committee members if you have comments or questions regarding Auditing SIG activities. Our contact information is on the Section's website

(<http://www.abs.aston.ac.uk/newweb/AcademicGroups/FAL/ASIG/FirtsPage.html>) and at the end of this Newsletter.

Have a great summer. I look forward to seeing you in Exeter on 27th & 28th March 2009. Make plans now to be there!

ilias G Basioudis.

Chairman

BAA's Auditing SIG

Aston Business School

BAA 2009 Annual Conference Announcement

The BAA's flagship event is its Annual Conference which provides the opportunity for delegates to present their current research, develop their academic network, and an opportunity for the professional bodies and publishers to meet with academics and promote dialogue between them.

The 2009 conference will take place Tuesday 21 to Thursday 23 April at the University of Dundee.



Letter from the Editor



Welcome to the fourth edition of *The Newsletter* for the Auditing Special Interest Group (ASIG) of the British Accounting Association (BAA).

The Newsletter provides a focus for supplying and receiving information on research and teaching in the auditing area, in the hope that new networks involving active contact and collaboration will arise. The aim at the moment is to publish the Newsletter twice a year. The Newsletter will be produced in hard copy and will also be available on the ASIG's website:

<http://www.abs.aston.ac.uk/newweb/AcademicGroups/FAL/ASIG/FirtsPage.html>

The Newsletter relies heavily on members and non-members of the Auditing Special Interest Group to contribute views, ideas and any other relevant information. In the 'Research' section, information about relevant research being funded or in progress, working papers, articles ready for publication, etc, etc are of particular interest which we would like to include in *The Newsletter*. Also, if you have read a journal published article which you think it is of high quality and of particular interest to others, please let us know, as there will also be a dedicated section in *The Newsletter* on already published research.

Also, we are very interested in contributions to our 'Features' section in *The Newsletter*. This section includes short articles or commentaries of maximum 1,500 words. Examples of such submissions include critical reviews of literature, proposals for auditing innovations, case studies involving audit firms, or essays on professional or regulatory developments. In the current Newsletter an article on auditor's report provided by Steven Leonard of the Auditing Practices Board is included under the 'Features' section. The nature of articles likely to be included in this *Newsletter* would more closely resemble the

types of audit-focused pieces one might find in periodicals such as *Accountancy* or other similar practice outlets. Articles will be much shorter and unlikely to contain statistical analyses.

There is a dedicated 'Teaching' section in *The Newsletter*. This section also relies on your contributions, such as news of activities and developments related to teaching of auditing, teaching materials, case studies, etc. Also, vignettes or anecdotal accounts of challenging teaching-related incidents and how they were dealt with would be of high interest to our members.

The fourth edition of *The Newsletter* includes news about forthcoming conferences, one article from the ICAEW on the Clarity Project, a comment on Sir Adrian Cadbury's speech given during the 2008 National Auditing Conference, a note on the changes in the Auditor's Report, our *Newsletter* poem, other important news that are highly relevant to our profession, and information on recent research publications by ICAS, so make sure that you peruse this important information carefully. In addition, please start collecting any items of news, teaching or research initiatives and events. Then send us these pieces which would be most appreciated, I can assure you!

Please send your letters and email messages to Ilias G Basioudis, Aston Business School, Aston University, Birmingham, B4 7ET, UK. Email: i.g.basioudis@aston.ac.uk

I look forward to hearing from you in due course. Let's develop *The Newsletter* of Auditing SIG into a worthwhile medium for news and information relating to our discipline.

Best wishes

Joanna Stevenson

Editor

Auditing SIG Newsletter

Audit Scotland

News

BAA 2009 Doctoral Colloquium Announcement

The BAA's Doctoral Colloquium is a national colloquium for students registered for a PhD/MPhil in Accounting and Finance at a UK or Irish University. The purpose is to bring together doctoral students to participate in plenary sessions lead by senior researchers, dedicated workshops presented by subject area specialists, and offer students the opportunity to present their own work and receive expert comment and advice from established faculty members. The Doctoral Colloquium also provides an opportunity for group networking.

The 2009 colloquium will take place Monday 20 April to Tuesday 21 April at the University of Dundee.



APB Issues Bulletin on Audit Issues When Financial Market Conditions Are Difficult

The Auditing Practices Board (APB) have issued Bulletin 2008/1 which provides guidance for auditors on audit issues that may arise when financial market conditions are difficult and credit facilities may be restricted. While the Bulletin may be of assistance to the auditors of financial institutions it has been written to apply more generally and focuses on the possible risks of misstatement to the financial statements for all entities arising from:

- The possibility of the reduced availability of finance, and
- Difficulties with valuing some assets for balance sheet purposes, especially those that are required to be measured at 'fair value'.

Richard Fleck, Chairman of the APB, commented: "The so called 'credit crunch' may increase the risks of material misstatement in the financial statements of some entities. This Bulletin has been prepared

to assist auditors in being alert to issues relating to the availability of finance and the valuation of some assets for balance sheet purposes and, thereby, to help them complete their current audits with appropriate rigour."

The Bulletin can be downloaded, free of charge, from the Publications/Bulletins section of the APB's website (www.frc.org.uk/apb), or directly by the following website: <http://www.frc.org.uk/apb/publications/pub1486.html>



FRC To Update The Combined Code

The FRC has announced that it will be updating the Combined Code.

The Financial Reporting Council today announced that it will be updating the Combined Code to:

- remove the restriction on an individual chairing more than one FTSE 100 company; and
- allow the chairman of a listed company below the FTSE 350 to be a member of, but not chair, the audit committee provided he or she was considered independent on appointment.

The revised Code will be published at the end of June, at the same time as new FSA Part 6 Rules implementing EU requirements relating to corporate governance statements and audit committees. The revised Code and new Rules will apply to accounting periods beginning on or after 29 June 2008. In practice, this means most companies will begin to apply them in 2009, and will report against them for the first time in 2010.



2008 American Accounting Association Annual Meeting

Anaheim, California, USA, August 3-6, 2008.

For more details, click on the website:

<http://aaahq.org/AM2008/menu.htm>

BAA 2009 Annual Conference Announcement

University of Dundee, Scotland, April 21-23
2009.

More details to follow, see also page 5



32nd EAA Annual Congress

Tampere, Finland, May 12-15, 2009

The **deadline** for the submission of papers is **1
December 2008**

For more details, click on the website:

<http://www.eaa2009.org/r/home>



EDEN Doctoral Seminar on Analytical Accounting Research

October 7-11, 2008 - EIASM, BRUSSELS -
BELGIUM

Application Deadline: 7 August 2008

For more details, click on the website:

http://www.eiasm.org/frontoffice/eden_announcement.asp?event_id=583

5th International Conference on Accounting, Auditing & Management in Public Sector Reforms

Amsterdam, Netherlands, September 3-5,
2008.

For more details, click on the website:

http://www.eiasm.org/frontoffice/event_announcement.asp?event_id=507



Workshop on Accounting & Economics

Milan, Italy, June 19-21, 2008

The purpose of this workshop is to promote the application of economic analysis in accounting research. Following the great success of several previous workshops in a row, this workshop again offers a forum to thoroughly discuss recent research using this methodology

For more details, click on the website:

http://www.eiasm.org/frontoffice/event_announcement.asp?event_id=562



2nd Workshop on Audit Quality

Milan, Italy, September 26-27, 2008 -

Submission deadline: 16th June 2008

For more details, click on the website:

http://www.eiasm.org/frontoffice/event_announcement.asp?event_id=578

see also page 8 for more details



2nd International Conference on Accounting and Finance

Thessaloniki, Greece, August 28-29, 2008

For more details, click on the website:

<http://eos.uom.gr/~icaf/>



Annual London Conference on Money, Economy and Management

Imperial College, London, July 3-4, 2008

For more details, click on the website:

<http://www.worldconferencecare.com/>



International Conference on Corporate Governance Research

Management Centre, Bangor Business School,
UK, September 19 2008

The above conference is organised by Special Interest Group in Corporate Governance of the BAA. This will follow on from the SIG's first PhD colloquium for doctoral students researching corporate governance in the accounting and finance discipline, taking place on 18th September.

For further information and a registration form, please email Jill Solomon at

solomonjf@Cardiff.ac.uk

Further Independence Proposals Issued By IFAC's International Ethics Standards Board for Accountants

The International Ethics Standards Board for Accountants (IESBA), an independent standard-setting board within the International Federation of Accountants (IFAC), has issued a re-exposure draft of proposals to strengthen two areas of the independence requirements contained in the IFAC Code of Ethics for Professional Accountants (the Code).

The proposals re-exposed for comment relate to the provision of internal audit services to a public interest audit client and the safeguards that are required when the fees from a public interest audit client exceed 15 percent of the total fees of the firm. The re-exposure draft relates to matters that were exposed for comment in July 2007.

"The IESBA considered the comments it received related to independence and concluded that the proposals in the July 2007 exposure draft should be further strengthened in the areas of internal audit services and the relative size of fees from a single audit client," states Richard George, IESBA Chair. "We are seeking comments on the proposed revisions because of the significance of the changes made to address comments received."

The re-exposure draft contains two key proposals. The first would prohibit independent auditors from providing internal audit services related to internal controls, financial systems or financial statements to an audit client that is a public interest entity, thereby further strengthening their objectivity in carrying out audits. The second proposal requires that an annual pre- or post-issuance review be conducted by a professional accountant who is not a member of the firm when the revenues from one public interest entity client exceed 15 percent of total firm revenue for two consecutive years. The proposal provides an important safeguard against the threat to independence when a firm receives a significant portion of its revenues from a single client.

The objective of the IESBA is to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants.

Comments on the exposure draft are requested by August 31, 2008. The exposure draft may be viewed by going to <http://www.ifac.org/EDs>. Comments may be submitted by email to edcomments@ifac.org. They can also be faxed to the attention of the IESBA Senior Technical Manager at +1 (212) 286-9570 or mailed to IFAC, 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.



Gareth Morgan's (Sheffield Hallam University) professorial inaugural lecture entitled "The Spirit of Charity" presented in April 2008 will be available from the following website shortly.

<http://www.shu.ac.uk/research/cvcsr/outputs.html>

This was not specifically an accounting/auditing paper, but it included some points regarding the audit/independent examination framework.



Kevin McMeeking (Exeter University) has been awarded a grant from ICAS and SATER to undertake research entitled "Competition, Choice and Governance in the UK Audit Market: Interview Evidence".



Professional Oversight Board Publishes Proposals for Regulating Audit Firms from Outside the European Union

The Professional Oversight Board has published detailed proposals to give practical effect in the UK to new European requirements for the regulation of the auditors of companies from outside Europe that have issued securities on regulated markets within the EU.

The requirements derive from the Statutory Audit Directive, which was agreed in 2006. In the UK there are some 570 such issuers from 50 countries audited by around 150 third country audit firms.

The European Commission is expected to finalise shortly a Decision on transitional arrangements that should reduce the regulatory burden on many of the audit firms for audits of accounts for financial periods starting between 29 June 2008 and 1 July 2010. While still needing to register in the UK before they sign a relevant audit report for UK purposes, audit firms from qualifying jurisdictions will not be subject to the UK's systems of inspection and oversight. A significant minority of audit firms from other jurisdictions will still have to meet the full regulatory requirements of the Statutory Audit Directive. It is important therefore that all the issuers and audit firms affected look closely at our detailed proposals and send us their comments.

The European Commission's Decision is expected to come into effect in July 2008. This clears the way for the Oversight Board to put in place the detailed arrangements for the registration and regulation of third country audit firms. The Board is seeking comments on the most urgent issues raised by **27 June**, and on the proposals generally by **25 July**.



Call for papers

2nd EIASM-Bocconi

Workshop on audit quality

Università Bocconi, Milan, Italy, 26th-27th September 2008

GUEST SPEAKERS:

- **Jere R. Francis**

University of Missouri-Columbia, USA

- **Dan A. Simunic**

The University of British Columbia, CA

Editor of *Auditing: A Journal of Practice and Theory*

ORGANIZING COMMITTEE:

- **Mara Cameran**

- **Annalisa Prencipe**

Accounting Department, Università Bocconi, Milan, Italy.

The workshop aims to promote discussion among academics by sharing recent research on the major topics related to audit quality.

Papers on the following areas are welcome:

- the role of regulation in improving audit quality
- corporate governance systems and their impact on audit quality
- audit quality and ethical standards
- auditor characteristics (independence, reputation, industry specialization) and audit quality
- auditor personal and professional skills as key drivers of audit quality
- audit market structure and audit quality
- audit quality and client pressure
- accounting education and audit quality
- litigation and audit quality
- accelerating audit reporting regimes and audit quality
- measurement of audit quality

To be eligible for presentation, manuscripts written in English must be submitted through the EIASM website (www.eiasm.org) by **16TH June 2008**. Priority in the selection process will be given to full papers.

Authors will be notified of acceptance by **15TH July 2008**. Accepted papers shall be sent for inclusion in the workshop program by **1ST September 2008**.

Each paper will be supplemented by a discussant.

For updates and further information on the workshop, please refer to the EIASM website (www.eiasm.org)

CONFERENCE ANNOUNCEMENT AND CALL FOR PAPERS

19th National Auditing Conference 27th & 28th March 2009, Thistle Hotel, Exeter, UK

The 19th National Auditing Conference, organised by the Auditing Special Interest Group (ASIG) of the British Accounting Association (BAA), will be held in Exeter, UK on Friday 27th and Saturday 28th March 2009.

The conference aims to provide a forum which: i) allows faculty from higher education establishments to meet and exchange ideas and experiences, ii) encourages the discussion of educational objectives and teaching methodologies within auditing courses, and iii) promotes the dissemination of current research and professional practice.

This conference has been successfully held at venues around the UK for the past 18 years and attracts a mix of academic and professional speakers from the UK and abroad. An important feature of the conference is that it is held in plenary session with papers presented serially rather than in parallel. Approximately 40 minutes is allowed for the delivery of each paper including an allowance of 10-15 minutes for discussion and questions. The conference organising committee invites papers in any area of auditing.

E-mail or post submissions to Ilias G Basioudis (please see the back of this Newsletter for contact details). Submissions (abstracts or full papers) must be received by **November 1, 2008** to be considered for the programme. Full paper submissions will be given priority. Submissions are not eligible for consideration if they will have been published or accepted for publication by November 2, 2008. Final version of accepted papers will be required for binding into the conference proceedings by 1 February 2009.

Early submission is highly encouraged. Any questions should be addressed to the conference co-ordinator, Kevin McMeeking (University of Exeter) or the ASIG's Chairman, Ilias Basioudis, at the e-mail addresses listed at the end of this Newsletter.

ASIG's website: <http://www.abs.aston.ac.uk/newweb/AcademicGroups/FAL/ASIG/FirtsPage.html>

Ernst & Young Bursary of £1,500.00 for a UK Academic to take a paper to the American Accounting Association (AAA) International Section Conference, 12-14 February 2009 at St Petersburg Beach, Florida

Ernst & Young are offering a Bursary of £1,500.00 for a UK academic to take a paper to the AAA International Section Conference. Ernst & Young recognise the limited resources available to UK academics and have established the Bursary to enable a UK academic to attend this conference and to make a contribution to better understanding between academics in UK and US, and to encourage collaborative work. The Bursary is managed by Peter Walton, Chair of the BAA International Section and by Stella Fearnley, Chair of the AAA International Section's International Relations Committee.

For 2007-2008, the Bursary was awarded to Dr Asad Kausar, Manchester Business School, for his paper *Impact of Bankruptcy Code on the value of the going*

concern opinion to investors. Asad enjoyed the conference and benefited from the experience.

UK academics are encouraged to submit papers in financial reporting, auditing or corporate governance explaining briefly why they believe the paper will be of interest to an academic audience comprising mainly US and some international members.

On behalf of AAA and BAA International Sections, Peter Walton and Stella Fearnley thank Ernst & Young for providing UK colleagues with this opportunity.

Submission of papers should be made electronically to Peter Walton P.J.Walton@open.ac.uk by 30 September 2008. Papers should not be published or accepted for publication at the time of submission. The award will be announced by 30 November 2008.

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ESRC Corporate Governance, Regulation and Development Seminar Series#

Seminar II: Corporate Governance and Access to Capital

Birmingham Business School, Friday October 24, 2008

Organisers: Victor Murinde (Birmingham Business School)
Christopher Green (Loughborough University)

Call for Papers and Announcement of Seminar II

The ESRC has provided funding for a series of seminars on the theme of Corporate Governance, Regulation and Development in 2008-09. The second seminar in the series will be held at Birmingham Business School, University of Birmingham, on Friday October 24.

The theme of this seminar is "Corporate Governance and Access to Capital".

Gaining ready access to capital for expansion or even for maintenance of existing operations is a critical issue for companies at all levels in developing economies. Emerging markets are typically subject to particularly acute information asymmetries and varying degrees of transparency. Therefore, it is important to establish what forms of corporate governance are more appropriate in these circumstances: first, to alleviate immediate information asymmetries and therefore to improve access to capital as well as to reduce its cost; second, to improve transparency over time and therefore to help promote the general development of an internal capital market. This seminar will aim to focus on these issues by setting out the current state of research, providing examples of ongoing research and considering the role of public policy in regulating and fostering improvements in governance.

Call for Papers

Those interested in presenting a paper should send an abstract of 200 words to Victor Murinde (V.Murinde@bham.ac.uk) by Friday, the 13th June, 2008.

PhD Sessions

The seminar will include special sessions for PhD students working in this area to present their work. PhD students interested in presenting their work should send a 200-word abstract and brief statement of support by their supervisor to Christopher Green (c.j.green@lboro.ac.uk) by Friday, the 13th June, 2008.

Completed papers should be with the organizers by Friday, the 26th September, 2008.

Seminar Announcement

If you would like to attend this seminar, please notify Victor Murinde (V.Murinde@bham.ac.uk) by Friday, the 26th September, 2008. The ESRC has made available limited travel and subsistence funds for participants. Travel costs will be reimbursed to PhD students who attend the seminar. Presenters of accepted papers will have travel within the UK reimbursed. Reimbursement of other participants will be at the discretion of the organisers.

Convenors of the ESRC Corporate Governance, Regulation & Development Seminar Series:

Thankom Arun (Lancashire Business School), John Armour (Oxford University), Christopher Green (Loughborough University), Victor Murinde (Birmingham Business School), and John Turner (Queen's University, Belfast).

UK FRC Publishes Further Paper on Choice in the Audit Market

The UK's Financial Reporting Council has recently published a discussion paper on the possible effects of changes to audit firm ownership rules, and a consultation on the use of audit firms from more than one network.

Responses are requested by 1 August 2008.

Further information on the FRC's Audit Choice Project can be found on the following website:

<http://www.frc.org.uk/about/auditchoice.cfm>

Relevance of 'True and Fair' concept confirmed

The FRC published few weeks ago the new legal opinion on the meaning of true and fair.

One interesting aspect of the opinion is that it seems to equate the European "True and Fair View" opinion with the North American "presents fairly" model. The web link to the opinion is

<http://www.frc.org.uk/about/trueandfair.cfm>

Research

Have You Read This?...

Ilias G. Basioudis and Jere R. Francis (2007), "**Big 4 Audit Fee Premiums for National and Office-Level Industry Leadership in the United Kingdom**", *Auditing: a Journal of Practice and Theory*, vol. 26, No. 2, November, 2007, pp. 143–166.

Ilias G. Basioudis, Evangelos Papakonstantinou, Marshall A. Geiger (2008), "**Audit Fees, Non-audit Fees, and Auditor Going-Concern Reporting Decisions in the United Kingdom**", *Abacus*, forthcoming.

"**Non-audit fees, long-term auditor-client relationships and earnings management**", *Accounting & Finance*, Volume 48, Issue 2, June

Jane Hamilton, Yang Li, Donald Stokes (2008), "**Is the audit services market competitive following Arthur Andersen's collapse?**", *Accounting & Finance*, Volume 48, Issue 2, June

Raghavan J. Iyengar, Ernest M. Zampelli (2008), "**Auditor independence, executive pay and firm performance**", *Accounting & Finance*, Volume 48, Issue 2, June.

Gaeremynck A., Van der Meulen S. and Willekens M. (2008) "**Audit-Firm Portfolio Characteristics and Client Financial Reporting Quality**", *European Accounting Review*

Porter B. (2008) "**Farewell Editorial: A glimpse of the history of IJA and significant changes in the auditing arena**", *International Journal of Auditing*, vol 12, No 1, pp. 3-7

Morgan, GG (2008). The Use of Receipts and Payments Accounts for Financial Reporting by Smaller Charities (Published research report for the Association of Charity Independent Examiners). Although this is about broader issues of financial reporting on the R&P basis, it does include a good deal of discussion of the issues for auditors and independent examiners.

The study is being launched on Friday 27 June and will be available from that date from <http://www.shu.ac.uk/research/cvsr/outputs.html>

Please let us have any interesting papers you have read and would like others to read too.

Working Papers

“The Role of the Audit Trinity in Securing Corporate Accountability and Responsible Corporate Governance” by Brenda Porter (School of

Accounting and Commercial Law Victoria University of Wellington)



“Audit Market Concentration and the Impact of Audit Firm Mergers in Developing Economy: The Case of Kuwait” by Mahmoud Fakhra (College of Business Studies,

Public Authority for Applied Education and Training Kuwait)

“Are Chinese auditing students underachieving at university?” by Julian Spencer-Wood (University of Greenwich Business School)

“Adoption of Computer Assisted Audit Tools and Techniques (CAATs) by Internal Auditors” by N. Mahzan and A. Lymer (both from Birmingham Business School)

“Canadian Cross-listed Firms in U.S., Audit Fees and Earnings Quality” by Mohinder Parkash (Oakland University), and Rajeev Singhal (Oakland University and Moody’s Investors Services)

“What do you expect? A reconfiguration of the audit expectations gap” by Ian Dennis (Oxford Brookes University Business School)

“Factors affecting external auditors’ reliance on internal audit in the current governance environment” by Lois Munro (Queensland University of Technology), and Jenny Stewart (Griffith University)

“The Materiality Concept In Social and Environmental Reporting Assurance (SERA):

Evolution and Confusion?” by Carla Rhianon Pel Edgley, Michael John Jones, and Jill Frances Solomon (all from Cardiff Business School, Cardiff University)

“The Role of the Audit Committee in Auditor-Client Interactions: Evidence from the 2007 UK Regulatory Environment” by Vivien Beattie (University of Glasgow), Stella Fearnley (University of Bournemouth), and Tony Hines (University of Portsmouth)

“The Role of the Long Form Statutory Audit Report in Corporate Governance: Evidence from the Polish Profession” by Marek Schroeder (University of Birmingham Business School), and Danuta Krzywda (Katedra Rachunkowości, Uniwersytet Ekonomiczny)

“Why Big 4 Firms are Not Preferred in an Emerging Market: An Empirical Analysis of Auditor Switches from Big 4 to Local Firms in China” by Charles J. P. Chen and Xijia Su (both from City University of Hong Kong), and Xi Wu (Central University of Finance and Economics, Beijing, China)

“Financial restatements, audit fees, and the moderating effect of CFO turnover” by Dorothy A. Feldmann, William J. Read, and Mohammad Abdolmohammadi (all from Bentley College, Department of Accountancy)

“Information and Communications Technology and Auditing: Current Implications and Future Directions” by Kamil Omoteso, Ashok Patel, and Peter Scott (all from Leicester Business School, De Montfort University)

Have you got any work-in-progress papers that you would like our members to know about? Send us your contributions to:

i.g.basioudis@aston.ac.uk

Features

This section includes short articles or commentaries of a maximum 1,500 words. Examples of such submissions include critical reviews of literature, proposals for auditing innovations, case studies involving audit firms, or essays on professional or regulatory developments. The nature of articles likely to be included in this section of The Newsletter would more closely resemble the types of audit-focused pieces one might find in periodicals such as Accountancy or other similar practice outlets. Articles will be much shorter and unlikely to contain statistical analyses.

Also, this section incorporates vignettes or anecdotal accounts of challenging teaching-related incidents and how they were dealt with. Finally, this section may include short profiles of members of Auditing SIG. Please send your letters or email messages to [ilias G Basioudis](mailto:ilias.g.basioudis@aston.ac.uk), Aston Business School, Aston University, Birmingham, B4 7ET, UK. Email: i.g.basioudis@aston.ac.uk

THE AUDITOR'S REPORT: A TIME FOR CHANGE?

Steven Leonard

Background

In December 2007 the Auditing Practices Board (APB) issued a discussion paper entitled "The Auditor's Report: A Time for Change? The paper was a response to the considerable interest, both in the UK and internationally, in the current form and content of the audit report. This interest being demonstrated by:

- Important changes to the auditor's report enacted in the Companies Act 2006 (CA 2006).
- Views received by the Financial Reporting Council (FRC) in response to its 2006 paper "Promoting Audit Quality".
- The paper issued by the Audit Quality Forum that considered the information that auditors communicate in their reports and how this reflects the purpose of the audit and the expectations of shareholders.
- The IAASB's recent Exposure Draft of ISA 700 (Redrafted) which proposes clarifications to a standard that has yet to be implemented in the UK and Ireland.

In this brief article I describe some of the changes to the auditor's report that have recently been enacted by the Companies Act 2006 and discuss other changes that market participants are calling for.

Recent company law changes

As the recent review of company law evolved it became clear that some institutional investors were dissatisfied with changes made in 2005 to the Companies Act 1985, whereby auditors were required to report that accounts "give a true and fair view, in accordance with the relevant financial reporting framework" (i.e. IFRSs or UK GAAP). These investors were of the view that it was unsatisfactory for the "true and fair view" opinion to be qualified by the wording "in accordance with the financial reporting framework" as this was perceived to diminish the ability of the auditor to exercise his or her judgment, by seemingly reducing an audit to the mechanistic checking of compliance with the accounting framework. Although the relevant European Directive expressly states that the purpose

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of these words was solely to make clear which accounting framework had been used¹, and not to qualify the meaning of the true and fair view, the Government was nevertheless persuaded by the arguments of these investors to change the wording of the audit opinion to the so-called three part opinion introduced by section 495(3) of CA 2006. The three parts of the opinion are:

Whether, in the auditor's opinion the accounts:

- Give a true and fair view (*with no qualifying words regarding the applicable framework*).
- Have been properly prepared in accordance with the financial reporting framework.
- Have been prepared in accordance with CA 2006.

An opinion along these lines will be required for audits of financial periods commencing on or after 6 April 2008. As can be seen, in the three part opinion the report on compliance with the financial reporting framework is clearly decoupled from the opinion on the true and fair view.

The importance of the true and fair view is reaffirmed in CA 2006 by section 393 which is a new requirement and states that directors' of a company (including those preparing accounts under IFRSs) must not approve the annual accounts unless they are satisfied that they give a true and fair view. The auditor is required to have regard to the directors' duty in carrying out his or her function. One effect of this section is to clarify that the true and fair concept applies to all accounts prepared in the UK, including those prepared under "IFRSs as adopted by the EU".

These developments are explained in a more erudite way in a recent opinion on the meaning and relevance of the true and fair view by Martin Moore QC that can be downloaded from the FRC website at <http://www.frc.org.uk/about/trueandfair.cfm>.

Other changes sought by investors and others

As the shape of the Companies Act 2006 was evolving investors and others sought, through various forums, further changes to the auditor's report including:

- Improving its readability by eliminating unnecessary standard language (boiler plate) such as the descriptions of the auditor's responsibilities.
- Requiring a positive statement concerning the adequacy of accounting records. (Section 498 of CA 2006 requires auditors to report only if they are not satisfied with the adequacy of the records)
- Where the auditors have not included an emphasis of matter, requiring a positive statement that there are no matters that the auditor wishes to emphasise.
- Including more company specific information within the auditor's report along the lines of the "justification of assessments" required to be included in French audit reports.

The APB's discussion paper addresses each of these issues and a number of others such as whether the auditor's report should:

¹ This was considered necessary because from 2005 companies (other than the consolidated accounts of listed companies) could choose either IFRS as adopted in the EU or national GAAP as their accounting framework.

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- refer to the auditor's responsibilities towards the directors' corporate governance statements;
- refer to the auditor's responsibility to read information in the annual accounts that accompanies the financial statements.

To assist respondents the Discussion Paper illustrates three contrasting approaches to the auditor's report:

- Example 1 which fully complies with the requirements of ISA 700 (Revised)
- Example 2 which follows the principles of ISA 700 (Revised) but omits much of the detail with respect to the directors' and auditor's responsibilities.
- Example 3 which meets the minimum requirements of CA 2006, but does not meet the requirements of ISA 700 (Revised).

Responses received on Discussion Paper

APB received in excess of 30 comment letters from a number of stakeholder groups. 50% of the responses came from institutional investors, organisations representing preparers, public sector bodies and individuals (including one academic). The other 50% came from auditing firms and accountancy bodies.

While there was quite a high degree of consistency in the responses within the different stakeholder groups there were quite marked differences of view between the stakeholder groups.

Perhaps the most surprising response came from one of the larger accounting firms which strongly supported a short audit report along the lines of Example 3 in the Discussion Paper.

APB response

The APB is presently considering what action to take in response to what it has learnt from the feedback. As a minimum the APB will need to revise the example audit reports that it publishes, to comply with the requirements of CA 2006. Such a change could be effected through APB's guidance and would not need changes to ISA 700 (UK and Ireland). If, however, APB decides to consult on proposals for more extensive changes then this will likely need an Exposure Draft of a revised ISA 700 (UK and Ireland) to be issued. (At the time of writing the APB is still considering the responses received and has not decided on its future course of action).

Coming European influence on the audit report

The Discussion Paper explains that the extent to which the content of UK and Irish auditor's reports can be determined by the APB alone will depend upon decisions taken by the European Commission (EC) with respect to the Statutory Audit Directive (SAD). Under the SAD the EC has the power either to adopt ISA 700 (Redrafted) for use in the EU or to develop its own "European Audit Report" which would have to be applied in all European countries, including the UK and Ireland.

Consequently, if APB does issue an Exposure Draft of a revision to ISA 700 (UK and Ireland) this may be the last that it issues on audit reports expressing its own ideas focusing on its UK and Irish

constituency. However, the feedback from the discussion paper and from an Exposure Draft, if there is one, should nevertheless be influential within Europe.

Steven Leonard is a Project Director at the Auditing Practices Board. Any personal views expressed in the article are those of the author and should not be attributed to either the Auditing Practices Board or the Financial Reporting Council.



Making Your Audit Committee More Effective

Most audit committees get ticks in all the boxes when it comes to complying with the Combined Code and the Smith Guidance. What can a chairman do to make the committee more effective? And what exactly does “effective” mean, anyway? This paper is based on our experience of working with audit committees and suggests that effectiveness arises from the balance between trust and rigour. It looks at how this can be recognised and offers some practical suggestions.

How to Make Your Audit Committee Better

As this paper has shown, audit committees are complex creatures. How much they add value depends on the interaction of many things: the type of people sitting around the table, their expectations, the independent directors’ knowledge of the business, their experience and expertise, the information the company gives them, the efficiency of the supporting processes, the contributions from the external and internal auditors, and so on. It isn’t always easy to see how these different threads are coming together, and it’s particularly difficult to judge the balance between trust and rigour when you’re looking at it from the inside. Audit committee chairmen find that it helps to have someone who isn’t part of the situation take an expert, objective look at it to help you clarify what’s working well and what could work better. Amongst other things, that’s what we do.



How audit committees can assess external audit effectiveness

The audit is an important service that costs a lot of money, and companies need to get as much from it as possible. There’s an opportunity here for an audit committee to add real value through its review of external audit effectiveness. The trouble is that it’s really rather difficult for an audit committee to make a very rigorous assessment of external audit quality. Can it actually add anything to what the regulators and the audit firm’s own quality processes are already doing? This paper sets

out to liberate audit committees. Rather than trying to do what others can do better, audit committees can add value by focusing instead on the qualitative, less visible aspects of the audit process.

The above two papers can be downloaded from www.independentaudit.com/us/publications

If you would like to find out more about the services or discuss any of the ideas contained in these papers, please contact: Jonathan Hayward (jonathan.hayward@independentaudit.com, +44 (0)20 7618 7721). Independent Audit Limited, 78 Cannon Street, London EC4N 6NQ, UK.



Power shifts from boards to advisers and the impact of the directors' pay packages

A comment on Sir Adrian Cadbury's speech during the National Auditing Conference 2008

We experience power shifts from company boards in favour of their professional advisers due to uncertain times, Sir Adrian Cadbury, the Chairman of the UK Committee which produced the well known Cadbury Report and Code on The Financial Aspects of Corporate Governance in 1992, warned recently. This dependence on the professional advisers and especially on their accountants and auditors is in direct contrast to the excessive pay packages and bonus culture in the corporate world.

It seems a sizeable shift in the balance of power from boards to their professional advisers is occurring the last few years, making advisers' expertise and advice more essential and potentially pricier than ever. The apparent shift in power is great news for

accountants and auditors who could see a higher price placed on their advice given the volatile economic outlook. For the smaller accounting firms especially, such power shift may prove to be a platform for them to expand further into the audit market and particularly in the market for the very largest public companies, providing of course that they will successfully respond to the opportunities created.

Speaking at the 18th National Auditing Conference, in Cardiff, which attracted academics and business leaders, and organised by the Auditing Special Interest Group of the British Accounting Association, Sir Adrian said: *"Boards are more dependent on their professional advisers and especially on their accountants and auditors, both external and internal, than ever before. There has been a shift in the balance of power from boards to their professional advisers and their expertise and advice has become more essential than ever. The challenge in a more uncertain and volatile financial world lies with these professionals."*

Sir Adrian's conclusion that the expertise and advice of professional accounting firms has become more essential than ever before is good news for the professional service firms, especially for their long term ability to continue recruiting good quality graduates. It can also be interpreted as he does not have much confidence in the directors who run businesses today, given the major scandals and asset write-offs in the recent years.

Another challenge at the corporate level is an understandable concern about the grossly inflated bonuses and pay packages of some top executives and about the level of payoffs for some who are fired. It is technically possible to ensure that bonuses or excessive salaries can only be cashed in when the success or otherwise of the strategies and deals, on which they have been predicated, are apparent. For example, pay packages and bonuses can be held in escrow accounts for some good time (let's say two to three years) to ensure all strategies and investments done by the executives stand the test of time. Further, company shareholders - particularly institutional investors - should become more active and sustain a more robust stance over excessive pay being taken by the executives. After all, it is in their own interest to get involved, as where there are these excesses, it is either directly at their expense or through dilution of their shareholdings. Nevertheless, top executive excesses and bonuses remain a challenge today. *"The reason why this challenge has to be addressed is, that there needs to be some sense of equity about the manner in which pay is distributed within companies in order to maintain social cohesion"*, Sir Adrian commented.

ilias G Basioudis.

Chairman, Auditing SIG of the British
Accounting Association

Senior Lecturer, Aston Business School

Teaching

This is a dedicated to 'Teaching' section in The Newsletter. This section relies on your contributions, such as news of activities and developments related to teaching of auditing, teaching materials, case studies, etc. Also, vignettes or anecdotal accounts of challenging teaching-related incidents and how they were dealt with would be of high interest to our members. Email us in: i.g.basioudis@aston.ac.uk

Surprise Tests

If you would like to increase your student attendance and also help them to get higher marks, then consider implementing the "surprise tests" technique within your class. For further details, see the following article:

"The Introduction of 'Surprise Tests' in Teaching Accounting" by Ilias G Basioudis, Accounting Education: An International Journal, Volume 17, No 2, June, 2008, pages 205-208.



BAA 2009 Doctoral Colloquium Announcement

The BAA's Doctoral Colloquium is a national colloquium for students registered for a PhD/MPhil in Accounting and Finance at a UK or Irish University. The purpose is to bring together doctoral students to participate in plenary sessions led by senior researchers, dedicated workshops presented by subject area specialists, and offer students the opportunity to present their own work and receive expert comment and advice from established faculty members. The Doctoral Colloquium also provides an opportunity for group networking. The 2009 colloquium will take place Monday 20 April to Tuesday 21 April at the University of Dundee.



The **British Accounting Association**, which was established in 1947, is a UK organisation which brings together those interested in teaching and research in accounting and finance. Please note that the Association is not a qualifying body for the purposes of practising accounting and finance, and members are not allowed to use or advertise their membership for business purposes. The Association currently has about 780 members, many of whom are employed in UK Higher Educational institutions. Other members include representatives from leading firms of accountants as well as a significant number of private individuals and people based outside the UK. The benefits of membership include:

- free subscription to the quarterly refereed journal *The British Accounting Review*;
- a free copy (in the year of publication) of the biennial *The British Accounting Review Register* – the authoritative reference work on UK accounting and finance departments and the lecturing/research interests and publications of 1,500 academic staff members across over 100 UK institutions;
- eligibility to:
 - join the **seven Special Interest Groups** of the BAA (which includes Auditing, Corporate Governance, Education, Financial Accounting and Reporting, Interdisciplinary Perspectives, International and Public Services);
 - join the **four Regional Groups** of the BAA (which includes North, South East, South West and Scottish);
 - attend the conferences, seminars, research workshops, and doctoral colloquium organised by the BAA and its sub-groups;
- reduced personal subscription rates for other journals, including *Critical Perspectives on Accounting* and *Accounting Education*.

During 2008 the Association’s Officers and Representatives are:

Chairperson	Neil Marriott, Winchester Business School
Vice Chairperson	John Holland, University of Glasgow
General Secretary	Jeffrey Unerman, Royal Holloway, University of London
Treasurer	Alan Murray, University of Sheffield
Editors, <i>British Accounting Review</i>	Vivien Beattie and Clive Emmanuel, University of Glasgow
Editors, <i>British Accounting Review Research Register</i>	Christine Helliar and Lissa Monk, University of Dundee
Chair, CPAF	Pauline Weetman, University of Strathclyde
Chair, CHA	Elaine Harris, DeMontfort University
Regional Groups: <ul style="list-style-type: none"> • Scottish • Northern • South Eastern • South Western 	David Power, University of Dundee David Oldroyd, University of Newcastle upon Tyne Mick Broadbent, University of Hertfordshire Mark Clatworthy, Cardiff University
Special Interest Groups: <ul style="list-style-type: none"> • Auditing • Corporate Governance • Education • Financial Accounting Reporting • Financial Markets and Institutions • Interdisciplinary Perspectives • International Accounting/Finance • Public Services 	Ilias G. Basioudis, Aston University Jill Solomon, Cardiff University Neil Marriott, Winchester Business School Mike Jones, Cardiff University John Wilson, University of St Andrews Jim Haslam, Dundee University Peter Walton, Open University Business School Ron Hodges, University of Sheffield

If you would like to join the Association, or if you require further information, please contact:

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Institute News

ICAEW research news

The latest catalogue of research and thought leadership publications from the ICAEW is now available. To request a copy ring 020 7920 8634 or send an email to centre@icaew.com. One of the most recent titles is a briefing called *Auditor/company interactions in the 2007 UK regulatory environment* by Vivien Beattie, Stella Fearnley and Tony Hines. The briefing can be downloaded from:

<http://www.icaew.com/index.cfm?route=156997>
or hard copies are available through the contact details listed above.



ICAS

RESEARCH PUBLICATIONS

The Research Committee of ICAS has published ten new research reports in 2007 and, to date, five new reports in 2008. All of these reports are available to download free of charge from the ICAS website www.icas.org.uk/research.

Noted below is a brief summary of one of these reports which is of particular relevance to auditing:

'What do you do now?' Ethical Issues Encountered by Chartered Accountants

David Molyneux

This report collates 28 true life ethical dilemmas faced by accountants either in practice or business. The objective of the report is to bring ethical problems to life and to encourage debate

and understanding of such issues rather than providing definitive answers. Instead each case concludes with an analysis entitled "What do you do now?" to identify the factors and issues which need to be considered.

The scenarios are a reminder as to how real dilemmas can either emerge over time or present themselves without warning. The examples reported give the opportunity to prepare by providing recognisable demands that can be discussed informally with colleagues to assess what each might do in these circumstances. Moreover, the cases may be used for more formal training and education purposes and in other novel ways to ensure that ethics is debated within the profession, in practice and in business, and in academia.

If you would like to subscribe to receive email notification of our new publications, research opportunities and our Newsletter, please contact the Research Centre at research@icas.org.uk

ICAS RESEARCH GRANTS

ICAS has recently awarded the following audit relevant grant:

The Future of Audit Assurance: A Focus on the Management Commentary Discussion Paper of the IASB

*Ian Fraser and Bill Collins, University of Stirling
William Henry, Glasgow Caledonian University*

The publication of the discussion paper *Management Commentary* by the International Accounting Standards Board (IASB) emphasises a growing trend towards a narrative, rather than a financial, emphasis in corporate reporting. These developments highlight further issues as to the associated audit assurance that, firstly, may be expected by corporate report stakeholders and, secondly, may be provided by the audit profession. This project investigates these two issues in consecutive stages and is expected to provide evidence as to the potential expectations gap that may exist in respect of *Management Commentary*. The research is relevant in a more general sense to the future of audit assurance.

The drive towards narrative reporting is juxtaposed with visible reservations as to the value and role of the contemporary external audit and there are indications of professional thinking sympathetic to reassessing the focus of the external audit. A consideration of possible audit assurance on *Management Commentary*

may be a useful first step in this direction.

For details of our grant application process or an informal chat about a research proposal please contact the ICAS Research Centre on 0131 347 0237 or alternatively visit our website at www.icas.org.uk/research.

The IAASB's Clarity Project

This article is based on a presentation made by Katharine E Bagshaw of the ICAEW's Audit and Assurance Faculty to the BAA Auditing Special Interest Group 18th National Auditing Conference at Cardiff University in April 2008

The International Auditing and Assurance Standards Board's (IAASB's) clarity project has been running for nearly four years now. The purpose of this article is to look at where we stand now and the likely effects of the implementation of this major piece of work.

Why a 'clarity' project?

The project started in 2003 with discussions about the variations in how International Standards on Auditing (ISAs) were dealt with in different jurisdictions. Another impetus was the work done by the Federation des Experts Comptables Européen (FEE) in 2000 and 2001 in promoting ISAs for Europe to the EC which led to the 2001 European Recommendation that we should work towards applying ISAs across Europe. The key issues of substance were the differing interpretations of the status of the 'present tense' grey letter material. Auditors in some jurisdictions regarded these statements as entirely optional, others regarded them as mandatory.

The objective of the clarity project is to improve the clarity of ISAs and thereby their consistent application. It involved establishing drafting conventions and the obligations of auditors who follow ISAs. Both of these were contentious issues back in 2004 because laid down the rules of the game for the whole project and for the shape of ISAs for many years to come. When IAASB issued its September 2004 Proposed Policy Statement and Consultation paper on clarity a great deal was at stake. Some wanted a presumption that all grey letter 'present tense' statements should become mandatory 'shall' requirements. Others wanted IAASB to presume the opposite and the positions were sometimes quite polarised. A category of presumptive 'should' requirements to which some exceptions would be permitted was rejected as being just too confusing. Some believed that auditors must achieve the objective of the audit without any exception and apply all of the requirements in standards, again without exception. And there was a small but vociferous lobby for statements to the effect that auditors should only be required to perform the mandatory procedures set out in the ISA and nothing more.

Drafting Conventions

The drafting conventions established ISAs divided into objectives, requirements and application material. There were proposals to move a large part of the extant explanatory material to IAPs or to divide the requirements and application material between two separate documents, but it was decided to keep all the material in one place. The most significant clarity project drafting conventions are those relating to the criteria for determining whether a grey letter present tense statement becomes a requirement or application material. The criteria for determining requirements are, *inter alia*, that the:

- requirement is necessary to achieve the objective of the standard
- requirements must be applicable in virtually all engagements

Redrafts

The IAASB took the decision early on that in order to meet a 2008 deadline, it would not revise some standards even though they probably needed it. But it is almost inevitable that even with the simplest re-ordering of words, some change in meaning results and it is very difficult when simply redrafting a very out-of-date ISA not to try and improve it just a little. Some task forces have been more enthusiastic than others in their redrafts and the ICAEW and others have complained vociferously where it seems that the task force has been overly enthusiastic. But whilst clarity is about re-ordering and prioritising existing text, if the existing text were clear, we wouldn't need the project, so some departure from the words of the current text was probably inevitable.

Costs, benefits and number of requirements

An IAASB Consultative Advisory Group (CAG) April 2007 paper shows an IAASB staff estimate of a 60% increase in the number of requirements, and that approximately one third of the present tense statements were taken up as requirements. This is complicated by the fact that a large number of the requirements are conditional; *if* auditors go to a stock take, they will count stock, etc. Much needed regulatory impact assessments are now being conducted and it is important that all stakeholders in the audit, including the corporate sector and investors, who may have limited knowledge of the standards, are involved in the debate. The EC has commissioned two studies by the Universities of Maastricht and Duisberg-Essen, one on the cost-benefit of ISAs, another on their comparison with PCAOB standards.

Timetables

The IAASB implementation date for all clarified standards for audits of financial statements for periods beginning on or after December 15, 2009, which is effectively 2010 audits. The Forum of Firms, an association of international networks of accounting firms that perform audits of financial statements that are or may be used across national borders, is already committed to apply this for transitional audits. The APB in the UK has yet to announce a UK date. IAASB's original timetable was for completion of the project in 2011. The EC objected and the timetable was brought forward to 2008. The IAASB is to be commended in having stuck to that timetable but it now seems unlikely that clarified ISAs will be implemented in Europe in 2010.

Implementation

The ICAEW worked hard to ensure original transition to ISAs (UK and Ireland) went smoothly in 2005 on the basis that it made sense for global standards to be adopted locally. UK standards were not hugely different to ISAs standards that had been aligned with ISAs in the mid-1990s. Standard-setters, professional bodies and the firms are now considering implementation issues for clarified ISAs. Substantial work on methodologies will be required by firms of all sizes. It is not long since the last major upheaval in the UK and there is a very real sense in which a major change in form will require more effort than a lesser change of substance. Change management will be an issue. There should be benefits for the profession and for clients arising from transferable auditing skills through widespread adoption of clarified ISAs. Much of the success of the implementation of the project will depend on the approach of regulators and audit inspectors. Provided audit stakeholders are brought in and engaged, the result has potential to be a workable improvement. Academics are already being involved and this area generally has scope for further study.

We thank Katharine Bagshaw from ICAEW for the above article

Newsletter Poem

It is not a bad idea to go back from time to time to the old poetic masters. Here are two short poems by Alfred Lord Tennyson. He certainly was good at choosing memorable titles – almost as good as Dylan Thomas – Iain Gray

In Love, If Love Be Love, If Love Be Ours

Some think that this may be the first reference to the rift in the lute.

In Love, If Love Be Love, If Love Be Ours

In Love, if Love be Love, if Love be ours,
Faith and unfaith can ne'er be equal powers:
Unfaith in aught is want of faith in all.

It is the little rift within the lute,
That by and by will make the music mute,
And ever widening slowly silence all.

The little rift within the lover's lute,
Or little pitted speck in garner'd fruit,
That rotting inward slowly moulders all.

It is not worth the keeping: let it go:
But shall it? answer, darling, answer, no.
And trust me not at all or all in all.

17 The Splendour Falls on Castle Walls

These lines are best read aloud in suitably musical tones.

The splendour falls on castle walls
And snowy summits old in story:
The long light shakes across the lakes,
And the wild cataract leaps in glory.
Blow bugle, blow, set the wild echoes flying,
Blow bugle; answer, echoes, dying, dying, dying.

O hark, O hear! how thin and clear,
And thinner, clearer, farther going!
O sweet and far from cliff and scar
The horns of Elfland faintly blowing!
Blow, let us hear the purple glens replying:
Blow, bugle: answer, echoes, dying, dying, dying.

O love, they die in yon rich sky,
They faint on hill or field or river:
Our echoes roll from soul to soul,
And grow for ever and for ever.
Blow bugle, blow, set the wild echoes flying,
And answer, echoes, answer, dying, dying, dying.

F L A S H B A C K

The National Auditing Conference The Previous Years:

The first National Auditing Conference took place in March 1991 and since then conferences have been arranged on an annual basis. Past conferences have been supported by the following institutions:

1991 [Sheffield Hallam University, Sheffield](#)
1992 [University of the West of England](#)
1993 [University of Staffordshire](#)
1994 [University of Central Lancashire](#)

1995 [Sheffield Hallam University, Sheffield](#)
1996 [University of the West of England](#)
1997 [Cranfield School of Management](#)
1998 [Glasgow Caledonian University](#)
1999 [University of Essex](#)
2000 [University of Edinburgh](#)
2001 [De Montfort University, Leicester](#)
2002 [University of Stirling](#)
2003 [Oxford Brookes University](#)
2004 [University of Southampton](#)
2005 [Aston Business School](#)
2006 [University of Manchester](#)
2007 [Dublin, hosted by NUI Galway](#)
2008 [University of Cardiff Business School](#)

The programme and papers presented in all National Auditing Conferences can be found in our website:

<http://www.abs.aston.ac.uk/newweb/AcademicGroups/FAL/ASIG/FirtsPage.html>

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